

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6143**

**BILL NUMBER:** SB 319

**NOTE PREPARED:** Dec 14, 2014

**BILL AMENDED:**

**SUBJECT:** Distribution of Local Option Income Taxes.

**FIRST AUTHOR:** Sen. Head

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill requires the Department of State Revenue to track the amount of county income tax that is received from employers for county taxpayers through withholding for which an income tax return has not been filed. It provides for distributions to counties of income tax withholdings received that are not associated with an individual income tax return by the deadline for claiming a refund (The deadline to claim a refund for withheld wages is two years after the filing due date).

**Effective Date:** January 1, 2016.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR may need to dedicate additional resources to correct the taxpayer information provided with a withholding remittance. The bill's requirements are within the agency's routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

*State Budget Agency (SBA):* When the SBA computes a county's certified distribution, the bill requires the SBA to adjust the certified distribution for any unclaimed LOIT withholding remittances received for a tax liability period two years prior to the year in which the determination is made. The SBA currently makes similar adjustments for refunds issued in a state fiscal year. The SBA's current level of staff and resources should be sufficient to implement the provisions of this bill.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues: Summary** - This bill changes the LOIT distribution process. It requires county withholding payments that remain unclaimed by taxpayers after two years from the filing date of the associated annual returns to be included in a county's certified distribution. The bill will likely increase the amount of LOIT revenue distributed to the counties beginning with the certified distributions for CY 2017. The total amount of statewide additional LOIT could be about \$54 M to \$99 M a year. However, the additional LOIT revenue for CY 2017 could be significantly larger if the unclaimed withholding payments for multiple liability periods are included in the CY 2017 distribution.

**Additional Information** - Under current law, a county's certified distribution for a given calendar year is based on the taxes received from that county and reported on the annual returns and amended returns processed in the state fiscal year that ends in the preceding calendar year. Next, the certified distribution is adjusted for LOIT refunds made in the state fiscal year plus any amount of interest in the county's account that has accrued and has not been included in a preceding year. For example, the certified distribution for CY 2017 would have to be determined by the SBA by October 1, 2016. The SBA would use the returns processed by the DOR between July 1, 2015, and June 30, 2016, to compute the certified distribution for CY 2017. About 95% of the tax returns that will be processed in FY 2016 will apply to tax year 2015, with the remainder applicable to tax year 2014. This certification would then be adjusted for LOIT refunds issued between July 1, 2015, and June 30, 2016 and accrued interest since the last distribution.

Following the same example above, this bill adds an adjustment to the certified distribution process for withholding payments that remain unclaimed for two years after the associated return deadline. The certified distribution for CY 2017 will include an adjustment for any withholding payments received for tax year 2013 that have not yet been claimed on an annual return.

The accuracy of the county's adjustment will depend on the quality of the information reported by employers when they remit withholding payments. If employers do not accurately report the residence of their employees, the unclaimed withholding payments will be distributed incorrectly. Even though, a taxpayer may not be issued a refund for withholding payments on returns filed two years after the filing deadline, they are still required to file an income tax return. Those late filed returns may result in additional adjustments made to certified distributions in ensuing years.

The estimates were computed using data from the State Auditor's database, individual income tax returns, and data provided by the DOR. The total withholdings received for tax years 2007 to 2012 were compared to the total withholdings, state and local, claimed by taxpayers on individual income tax returns filed for those same tax years. Then the difference between the total withholding remitted and the total withholding claimed was split into state and local excess withholding based on the return data. The data are not adequate to provide a more refined estimate, nor does the data contain the detail necessary to provide reliable specific county estimates.

**State Agencies Affected:** Department of State Revenue; State Budget Agency.

**Local Agencies Affected:** Counties with a local option income taxes.

**Information Sources:** LSA income tax database; State accounting system.

**Fiscal Analyst:** Heath Holloway, 232-9867.